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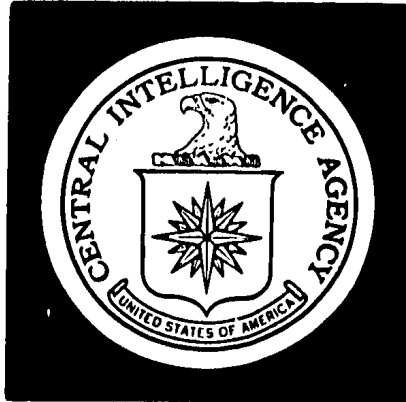
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DIRECTORATE OF  
INTELLIGENCE

# Intelligence Memorandum

*The Economic Situation In Cambodia*

**Secret**

ER IM 71-87  
April 1971

Copy No. 65

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
April 1971

INTELLIGENCE MEMORANDUM

The Economic Situation In Cambodia

Highlights

1. The Phnom Penh price index remained fairly stable during February, following an 18% increase in January. Its new stability was attributable mainly to an increased flow of supplies from the Northwest following the reopening of Route 5 and the Battambang-Pursat rail line. No information on prices is available for March. The value of the riel on the Hong Kong market appreciated substantially from the record low reached in March, most likely because the International Monetary Fund (IMF) suggested a less substantial devaluation than had been anticipated.

2. Preliminary findings of an IMF survey team are very pessimistic with regard to Cambodia's prospective financial position. The team estimates that, because of lags in deliveries of imports financed by US AID, Cambodia's 1971 fiscal deficit may greatly exceed the 6 billion riels officially projected and has suggested establishment of an exchange support fund to preserve the value of the riel. However, the IMF did not evaluate the planned military expenditures, which constitute the bulk of the budget and which appear to be substantially inflated. If appropriate adjustments are made, the projected deficit would exceed official projections only under the most pessimistic assumptions about US AID deliveries.

*Note: This memorandum was prepared by the Office of Economic Research and coordinated within CIA.*

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3. Aside from increased enemy harassment in the Northwest, including some temporary interdictions of Route 5 and the Battambang-Pursat rail line and a rocket attack on a Mekong River convoy, there were no significant changes in the security of lines of communication from mid-March through the end of April. Petroleum deliveries to Phnom Penh continued to meet basic consumption requirements, but reserves remained low, and stocks of some products became critically low before being replenished.

4. Charts on prices and currency outstanding; imports, exports, and foreign exchange revenues; and government borrowing from the Banque du Cambodge follow the text.

DiscussionPrices

5. Retail prices in Phnom Penh remained stable during February. The price index for working class families increased less than 1% during the month, after an 18% increase in January. Both Route 5 and the Battambang-Pursat rail line, which carry the bulk of agricultural goods destined for the capital, were back in operation by the middle of February, after having been out of service for five or six weeks. Traffic along Route 5 was subjected to enemy harassment during the latter part of March but continued to move in convoys under military escort. No information on prices is available for March, but the food supply situation in the capital was relatively favorable. Average daily deliveries of foodstuffs from Battambang to Phnom Penh were probably greater during March than in any month since harvesting began in November. Increasing enemy harassment and temporary interdictions to Route 5 and the Battambang-Pursat rail line may have reduced deliveries in April, however.

Black Market Currency Prices

6. The value of the riel has appreciated substantially from the record low reached in March.

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The riel's value on the Hong Kong market dropped to 150 per US \$1 on 22 March but by April had risen to 120. Its low point was reached on the day before an IMF team arrived in Phnom Penh to discuss devaluation and overall reform of Cambodia's exchange system (see below). Its recovery can be attributed, in part at least, to the IMF's suggestion that the exchange rate be set initially at only 75 riels per US \$1, a less substantial change than probably had been anticipated. Prior to the IMF proposal, Cambodia had already settled on an effective rate of 83 riels per US \$1 for US AID commodities. (The official rate is 55.5 riels per US \$1.)

#### IMF Recommendations

7. The preliminary findings of an IMF mission, which recently returned from Phnom Penh, are very pessimistic with regard to Cambodia's prospective financial position. Because of an expected shortfall in budget receipts from US AID imports, the mission estimates that Cambodia's 1971 fiscal deficit may be far in excess of the 6 billion riels officially projected. The mission fears that present restrictions on available aid make it suitable for financing only part of the economy's total import requirements and that, barring additional, freely usable foreign aid, Cambodia might face hyperinflation.

8. The IMF mission recommended a flexible exchange rate and establishment of an exchange support fund, apparently similar to the Foreign Exchange Operations Fund in Laos, whereby foreign exchange is freely sold to importers for local currency. The fund would include Cambodia's present foreign exchange reserves, a \$6 million subscription from the IMF, and cash contributions from friendly countries.

9. Other suggested reforms of the exchange system designed to limit inflationary pressures included liberalization of import restrictions and a requirement for 100% advance riel deposits against imports.

10. With respect to fiscal matters, the IMF mission enjoined the Cambodian government to hold

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the line on expenditures, particularly until after revamping of the trade and exchange system. It was also suggested that the government permit a drop in the real wages of its employees by aiming at less than full salary adjustment for price increases. Other measures called for increased tax rates and periodic revision of specific duties, but only petroleum products were cited as particularly appropriate items for higher excises.

11. The IMF mission's expectation of a short-fall in budget receipts from US AID imports is well-founded. Of the \$78.5 million in US economic aid obligated to Cambodia for US fiscal year 1971, only a very small amount has actually been delivered. No deliveries have been made on that portion financed under PL 480 (\$8.5 million) and none is expected before June. Best estimates available indicate that actual deliveries before the end of December will range between a high of \$60 million and a low of \$30 million, which would imply budget deficits well above official projections. The IMF mission, however, did not make a detailed budget study and, in particular, did not address itself to the questions of military expenditures -- the dominant source of the deficit. Analysis of the government's 1971 budget reveals that projected costs for military personnel are substantially overstated\* and, when deflated, yield a budget deficit substantially less than 6 billion riels, except under the most pessimistic assumptions concerning US AID deliveries.

#### Security of Lines of Communication

12. Increased enemy harassment of traffic on Route 5, a temporary interdiction of the railroad northwest of Pursat, and the destruction of a bridge at the eastern end of Route 3 that severed road access to Kampot were the major changes in the status of lines of communication in the last half of March and the month of April.

13. After flowing smoothly for more than a month, traffic on Route 5 -- particularly the

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stretch between Phnom Penh and Kompong Chhnang -- was subjected to repeated enemy harassment from mid-March through the end of April. Enemy actions included attacks by fire, the destruction of a small bridge, and occasional obstruction by trenching or the felling of trees. All interdictions were quickly eliminated, however, and vehicle security was assured by the formation of convoys moving under armed escort. No factual data are available concerning the extent to which deliveries of agricultural products to Phnom Penh may have been reduced, but the short duration of the interdictions suggests that their effects were not serious.

14. Rail traffic between Battambang and Pursat was disrupted by the sabotage of track in the vicinity of Phnom Thippadey on 16 April, but the line was back in operation by 24 April. Although the section of the railroad between Pursat and Phnom Penh has been interdicted by destroyed bridges since last summer, the segment northwest of Pursat handles large tonnages of rice and other produce shipped from Battambang. At Pursat, the goods are transferred to trucks for the remainder of the journey to Phnom Penh.

15. On 3 April a major bridge located on Route 3 near Kompong Smach was destroyed by enemy action, thereby severing Kampot's connection with Route 4 and Kompong Som. The enemy's interdiction since last summer of the eastern end of Route 3, southwest of Angtassom, and the renewed interdiction of Route 4 since 26 March had already rendered Kampot unreachable by highway from Phnom Penh. The Kampot area is Cambodia's main source of salt and cement.

16. The security of shipping on the Mekong, which had not been harassed by enemy action since 16 March, was disrupted on 29 April when a north-bound convoy of five freighters, a tanker, two tugs, and three barges escorted by 36 gunboats drew enemy rocket fire about 15 kilometers north of the Vietnamese border. Three merchant ships were lightly damaged, and portions of a cargo of sugar and wheat flour were damaged by water while a fire caused by the rockets was being extinguished.

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Petroleum

17. There has been no significant change in the petroleum situation. Deliveries have been quite regular but little more than adequate to meet minimum consumption requirements. Consequently, reserves in Phnom Penh have remained low, and, in recent weeks, stocks of aviation gasoline and some diesel oils became critically short before being replenished.

18. The Mekong continues to be the principal supply route. On 23 April the tenth petroleum convoy to reach Phnom Penh via the Mekong under the protection of coordinated land, water, and air security procedures instituted in mid-January arrived without incident. The river convoys delivered about 35,000 tons of assorted petroleum products in the period 17 January-23 April. By comparison, little more than 1,000 tons have been trucked to the city since the first of the year via Route 1 from Saigon and Route 4\* from Kompong Som. Another 10,000 tons of petroleum products were trucked into Battambang from Thailand in the first four months of this year, but it is doubtful that more than 10% of it reached Phnom Penh.

18. The Cambodians are anxious to build up their petroleum reserves as a hedge against possible future disruptions to transport. As of 27 April, less than 15% of Phnom Penh's petroleum storage capacity was being utilized, largely because the fleet of seven petroleum barges and a tanker -- all chartered from foreign concerns -- handling the shipments from Saigon has been unable to increase the rate of delivery. Few suitable carriers are available, however, and charter costs are high.

19. The Cambodians are still deliberating whether to put their refinery at Kompong Som back into operation or "mothball" it until it can be secured against enemy attack. They now believe it could be restored to limited operation within about seven months from the initiation of reconstruction at a cost of \$1.2 million, compared

\* Closed by enemy interdiction for all but the period 29 January to 25 March.

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with an expenditure of about \$510,000 for deactivation. Estimated potential foreign exchange savings on the order of \$100,000 a month on even a limited scale of operations would seem to justify restoration of the plant, but the investment decision is complicated by the threat of a repetition of the enemy attacks that set fire to the plant in early March. A substantial part of the gasoline and diesel fuel remaining in refinery tanks after the fire was transferred by tanker to South Vietnam in mid-April for transshipment to Phnom Penh.

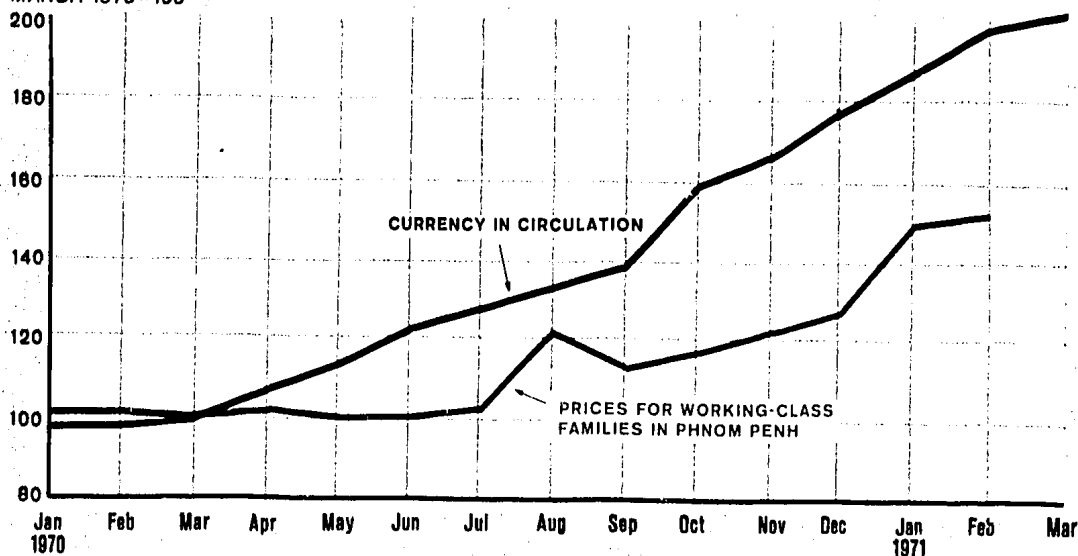
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# **CAMBODIA** **Indices of Currency and of Prices, 1970-71**

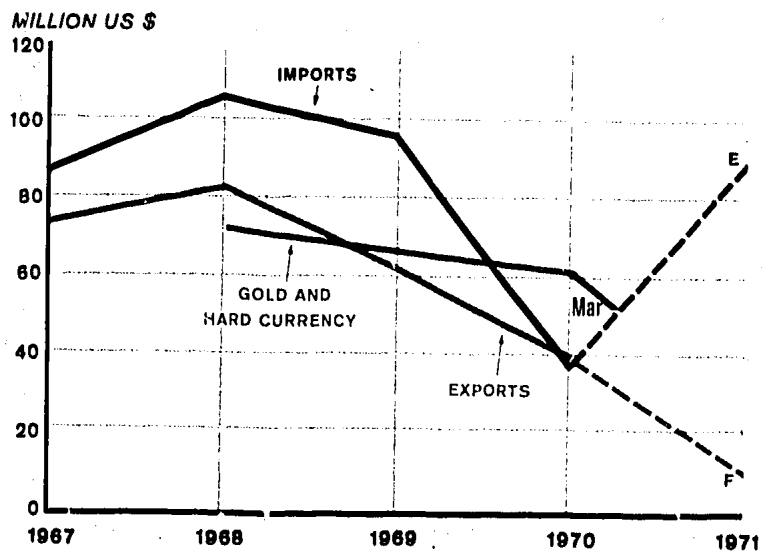
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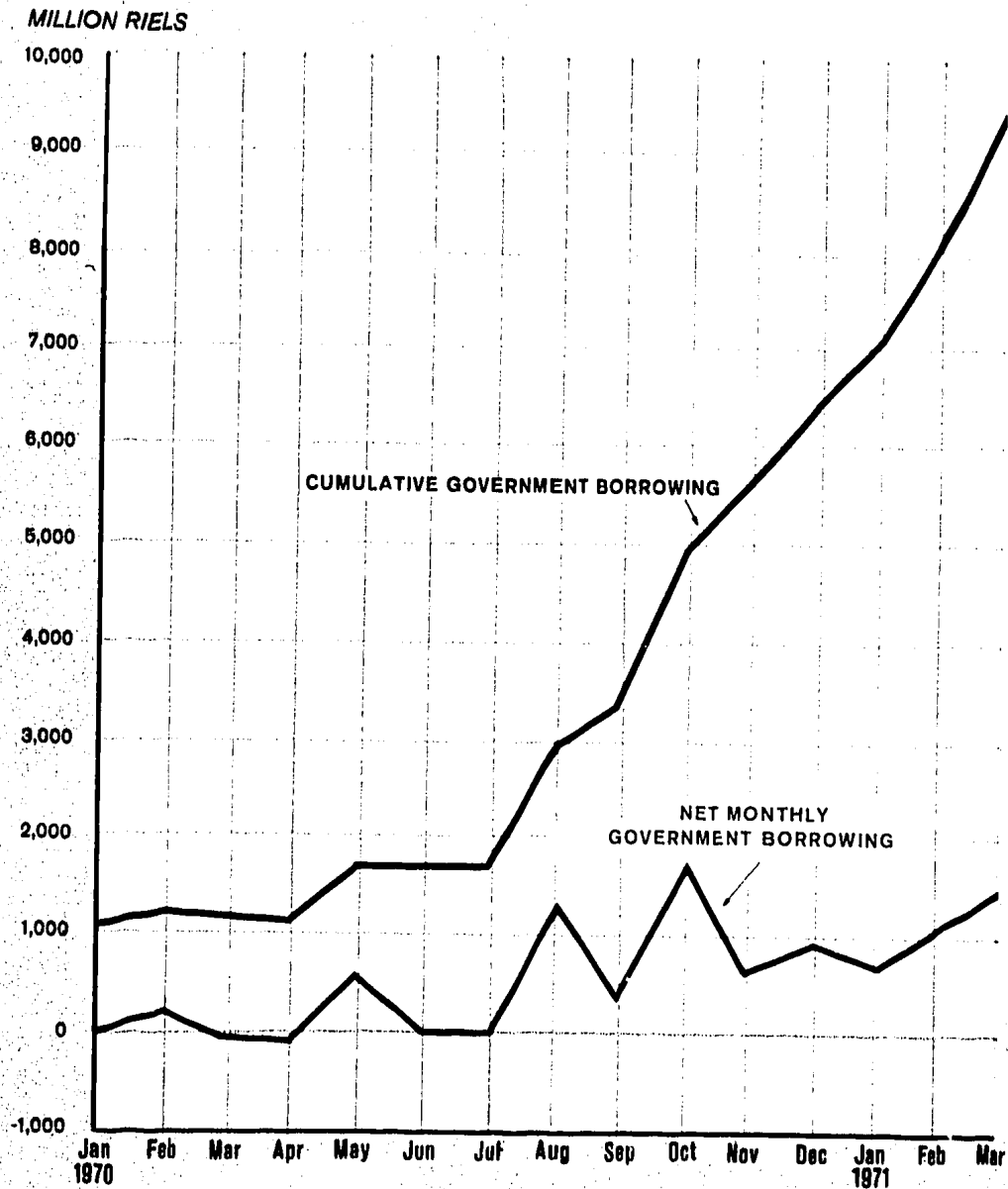
**CAMBODIA**  
**Imports, Exports, and**  
**Gold and Hard Currency Holdings**



E=Official projection explicitly based on prospect of foreign aid  
F=Official revised projection

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**CAMBODIA  
Government Borrowing from the  
Banque Nationale du Cambodge  
1970-71**



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